



Yet Another Setback for Bombardier Inc. and the CSeries

Description

It seems that **Bombardier Inc.** ([TSX:BBD.B](#)) just can't catch a break with its CSeries program. And the CSeries received yet more bad news on Friday evening.

What happened this time?

Republic Airways Holdings Inc. (NASDAQ:RJET) is one of the CSeries's most important customers. The regional airline ordered 40 CS300 planes back in February 2010 with an option for 40 more. Interestingly, this order was what led to rivals Airbus and **Boeing** putting new engines on their competing planes.

Now it appears this order is in major jeopardy. While reporting preliminary results for the second quarter, Republic warned that earnings would be even worse than expected because of a dispute with pilots. The news sent the company's shares down by more than 50% on Monday.

In fact, even before this news Republic was regretting its CSeries order. The company needs two carrier certificates to operate the CSeries, but is moving towards only one in order to cut costs. We still don't know what its plans are.

At the very least, Bombardier can forget about that option for 40 additional planes.

What happens now?

Here's the good news: aircraft orders such as these typically come with steep cancellation charges. And Bombardier is adamant the order is still firm. But that's where the good news ends.

There are a couple of ways these developments could hurt Bombardier. The first is that Republic could go bankrupt, and this is a serious possibility. The company has nearly US\$1.9 billion in net debt, a big number for a company valued at less than US\$200 million, and a very uncertain operating future. Investors aren't particularly confident either—the company trades at less than four times trailing earnings.

Even if Republic stays afloat, it will likely try to transfer its CSeries order to another airline. This will make it very difficult for Bombardier to increase its CSeries order count. After all, if you were an airline executive and wanted some CSeries planes, you're better off giving a call to Republic than to Bombardier. You'd almost certainly get a better deal, and would also get sooner delivery.

Not the time to buy

Interestingly, Bombardier's shares have actually increased since Republic's announcement. Thus, it looks like the company's shareholders aren't taking this news seriously.

So for now, I would hold off on buying the stock. There's probably more bad news to come, and it's not clear that investors are ready for this. Further down the road, however, there may be a much better opportunity to buy Bombardier.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:BBD.B (Bombardier)

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